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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001297

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STATE FOR SCA/CEN, EUR/RUS AND EEB;
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ENERGY FOR EKIMOFF/THOMPSON
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TAGS: [PREL](#) [EPET](#) [ETRD](#) [RU](#) [TX](#)

SUBJECT: TURKMENISTAN/RUSSIA: BERDIMUHAMEDOV AGREES TO NEW
GAS PRICE AND TO MOVE FORWARD WITH PLANS FOR CASPIAN
LITTORAL PIPELINE

REF: A. ASHGABAT 1296

[1](#)B. ASHGABAT 1259

Classified By: Charge d'Affaires Sylvia Reed Curran for reasons 1.4(B)
and (D).

[1](#)1. (SBU) SUMMARY: After a hardcore blitz campaign by Russia and Gazprom, headed by Russia's Prime Minister Victor Zubkov and Gazprom CEO Alexei Miller, President Berdimuhamedov agreed on November 23 to move up the timeline for construction of a Caspian littoral pipeline to Russia, and to sign a construction agreement by the end of the year. Four days later, Gazprom agreed to increase its purchase price for Turkmenistan's gas to \$130 per thousand cubic meters (tcm) effective January 1, 2008, and \$150 per tcm effective July 1, [1](#)2008. However, the two did not agree to increase their sales volume. Given what we know about gas reserves in the Caspian, the construction of a Caspian littoral pipeline could put new time pressures on efforts to gain Turkmenistan's agreement for construction of a Trans-Caspian (TCP) or TCP alternative pipeline. That being said, however, there remain other potential sources of gas both onshore and offshore that could still make both feasible. Berdimuhamedov seems to be banking on that possibility and may have chosen to move forward on what may seem to be politically and economically the easiest option. END SUMMARY.

[1](#)2. (U) Russia's Prime Minister Victor Zubkov had bilateral meetings with Turkmenistan's President Berdimuhamedov twice during his November 22-23 trip to Turkmenistan. The first meeting, by all accounts, was cordial but general. The two got together on November 23, after the November 22 CIS Heads of Government summit, along with Gazprom CEO Alexei Miller, to discuss gas and other bilateral issues in detail. Miller's negotiations with Turkmenistan finished on November 27, with an agreement between Turkmenistan and Gazprom on a new price for Turkmenistan's gas.

BERDIMUHAMEDOV AGREES TO FAST-FORWARD LITTORAL PIPELINE
CONSTRUCTION

13. (C) Berdimuhamedov apparently entered his meeting with Zubkov having decided that he was going to agree to move forward on the Caspian littoral pipeline project, which would offer the possibility of transporting up to 20 billion cubic meters of gas from Turkmenistan's Caspian Sea blocks north to Russia. (NOTE: In talking about construction or renovation of a Caspian littoral pipeline, we are actually talking about the construction of a new pipeline, which could carry 20 billion cubic meters of gas per year north to Russia. This new pipeline would follow alongside the old Central Asia Center-III (CAC-III) pipeline, which at one time was able to transport up to 10 billion cubic meters, but which has been unusable for some years due to vandalism and the pipeline's generally poor condition. Contacts from Burren Energy and Petronas who have examined the CAC-III pipeline agree that it cannot be renovated. END NOTE.) Berdimuhamedov announced during his initial meeting with CIS heads of government (Ref. A) that he was willing to move forward with the project ahead of the late-2008 timeline that he, Russia's President Putin, and Kazakhstan's President Nazarbayev had laid out during their May 2007 summit in Turkmenbashi.

14. (U) At a press conference following his November 23 meeting with Zubkov, Berdimuhamedov went further, stating not only that construction on the Caspian littoral pipeline would begin in the second half of 2008, but also that Russian companies will take part in its modernization. Zubkov added that the agreement on the pipeline's construction will be signed before the end of the year. (Zubkov also went on to

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list a range of other areas of bilateral agreement, including the decision to send an additional 150 students to Russian universities, and an agreement to establish branches of Moscow State University and Gubkin Institute in Ashgabat soonest.)

AGREEMENT ON NEW GAS PRICE, BUT NOT ON NEW SALES VOLUME

15. (U) After the November 23 press conference, Alexei Miller told the Russian press that "our Turkmen partners informed us of international meetings, during which representatives of the European Commission and the U.S. State Department consistently put forward the idea that Turkmen gas prices under the current export contracts were very low compared to current gas prices in Europe and could be increased." This, Miller added, was the reason that Turkmenistan had sought to increase the purchase price for its gas, and Turkmenistan and Gazprom had been unable to reach agreement on a new price on November 23 but would continue with negotiations the week of November 26. A higher purchase price, he noted, would result in higher downstream gas prices.

16. (SBU) On November 27, Gazprom issued a statement noting that Turkmenistan and Gazprom had agreed to a new price for Turkmenistan's gas: for the first half of 2008, Gazprom would pay \$130 per tcm, and this price would increase to \$150 per tcm in the second half of 2008. The price could increase further in 2009, based on a formula related to market prices. While Miller expressed Gazprom's willingness to increase the volume of its gas purchases from Turkmenistan from the current level of 50 billion cubic meters per year, however, there is no indication that the two parties reached concrete agreement on increased sales.

17. (C) A diplomat at the Ukrainian embassy confirmed most of the details of the above agreement, including that the two sides did not agree to increase the volume of sales. The increased price is bad news for Ukraine, one of the major consumers of Turkmen gas. However, Gazprom and Ukraine have yet to work out the details of a new deal, he added.

¶8. (C) COMMENT: Given China's promise to pay \$150 per tcm when the Chinese pipeline comes on board in 2009, it is no surprise that Turkmenistan wanted to get more for its gas, and post believes that Turkmenistan probably started its negotiations with a request for \$150 per tcm. The new pricing scheme seems to be a pragmatic agreement with Gazprom to split the difference between the two sides' opening prices. What is unclear as yet, however, is how these new prices will affect downstream consumers, though it appears from Miller's comments that Gazprom has every intention of passing on the added cost, rather than taking a cut in its own profit margin.

¶9. (C) COMMENT CONTINUED: Although the agreement to move forward with construction of the new Caspian littoral pipeline does not necessarily rule out further discussion of a Trans-Caspian pipeline (TCP), it may put new time pressures on efforts to gain Turkmenistan's agreement to such an arrangement. If there are no obstacles, the new Caspian littoral pipeline could be constructed by the end of 2010 or 2011, and most experts seem to agree that, according to known reserves, a TCP and a Caspian littoral pipeline would, essentially, be competing for the same gas. That said, however, there are also other potential sources of gas both onshore and offshore that could still make both feasible (i.e., Maersk/Wintershall begins exploratory drilling in 2008, Dragonoil is flaring gas, and ConocoPhillips/Lukoil hopes to sign a new offshore PSA soon). And, in fact, Turkmenistan's Deputy Chairman of the Council of Ministers

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for Oil and Gas, Tachberdi Tagyev, hinted that there may be large gas resources in the Caspian when he met SCA Principal Deputy Assistant Secretary Steve Mann on November 16 (Ref. B) -- though Turkmenistan is an old hand at claiming massive reserves while refusing to put forward supporting evidence for its claims.

¶10. (C) COMMENT CONTINUED: There also remain potential obstacles to follow-through on the Caspian littoral pipeline's construction, most of all including potential differences between Gazprom and KazMunayGaz over ownership and pricing arrangements for the segment of the pipeline running through Kazakhstan. Given the fact that Turkmenistan has made delimitation of its border with Azerbaijan a precondition for consideration of a TCP or TCP alternative, that delimitation negotiations are not going anywhere quickly, and that both Russia and Iran are seeking to play a spoiler role, Berdimuhamedov may have decided to move forward on what may seem to be politically and economically the easiest option.

CURRAN